



LENAWEE INTERMEDIATE SCHOOL DISTRICT

"Your Partner in Education for a Changing Tomorrow"

Lenawee, Michigan

FINANCIAL STATEMENTS

For the Year Ended June 30, 2006



REHMANN ROBSON

Certified Public Accountants

LENAWEE INTERMEDIATE SCHOOL DISTRICT

For the Year Ended June 30, 2006

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LENAWEE INTERMEDIATE SCHOOL DISTRICT

For the Year Ended June 30, 2006

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

September 16, 2006

Board of Education
Lenawee County Intermediate School District
Adrian, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of ***Lenawee County Intermediate School District*** ("the District"), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of Lenawee County Intermediate School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Lenawee County Intermediate School District as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the General, Special Education and Vocational Education Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2006, on our consideration of Lenawee County Intermediate School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lenawee County Intermediate School District's basic financial statements. The combining and individual fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of Lenawee County Intermediate School District. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Lenawee County Intermediate School District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lobson". The signature is written in a cursive style with a large, prominent 'L' and 'L'.

Management's Discussion and Analysis

LENAWEE INTERMEDIATE SCHOOL DISTRICT – ADRIAN, MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

The Administration's discussion and analysis, a requirement of GASB 34, is intended to be the Lenawee Intermediate School District administration's discussion and analysis of the financial results for the year ended June 30, 2006.

Generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District Wide Financial Statements and Fund Financial Statements.

FINANCIAL HIGHLIGHTS

The overall condition of all funds remains very strong for the District. The assets of Lenawee Intermediate School District exceeded its liabilities at the close of the most recent fiscal year by \$35.0 million (net assets). At the end of the current fiscal year, the aggregated fund balance for the District's General Fund, Special Education Fund and Vocational Education Fund was \$10.1 million. The District's total governmental fund equity was \$17.1 million as of June 30, 2006.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements that show information for the School District as a whole, its funds, and its fiduciary responsibilities. The statements and notes to those statements are organized so the reader can understand the District as a whole and then proceed to provide an increasingly detailed look at specific financial activities.

The fund financial statements report the School District's operations in more detail than the government-wide financial statements by providing information about the School District's most significant funds. The Proprietary Funds statements present financial information about the activities of the District's internal service funds. The remaining Statement of Fiduciary Net Assets presents financial information about activities for which the School District acts solely as an agent for the benefit of students and employees.

The district's auditor has provided assurance in his independent auditor's report, located immediately preceding this Management's Discussion and Analysis, that the Basic Financial Statements are fairly stated. A user of this report should read the independent auditor's report carefully to ascertain the level of assurance being provided for each part of the Financial Section.

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Assets and Statement of Activities - One of the most important questions asked about the District's finances is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The Statement of Net Assets and Statement of Activities, which appear first in the School District's financial statements, report information about the District as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities of the District using the accrual basis of accounting similar to the accounting used by most private-sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the Lenawee Intermediate School District's net assets, which is the difference between assets and liabilities, and changes in them. The change in net assets provides the reader a tool to assist in determining whether the District's financial health is improving or deteriorating. Over time, increases or decreases in the School District's net assets – as reported in the Statement of Activities – are one indicator of whether its financial health is improving or deteriorating. The relationship between revenues and expenses indicates the School District's overall operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided, the safety of the schools, the property tax base, student enrollment growth, birth rates and facility conditions to assess the overall health of the School District.

Fund Financial Statements - The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. The School District's major governmental funds are the General Fund, the Special Education Fund, the Vocational Education Fund and the General Services Capital Projects Fund. In the fund financial statements, capital assets purchased by cash are reported as expenditures in the year of acquisition. No asset is reported. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

Governmental Funds - Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds. Governmental funds also provide the balances left in each fund at year end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or less financial resources available to spend in the near future to finance the District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

Proprietary Funds - The School District's two proprietary funds use the same accrual method of accounting as the government-wide statements. Therefore, the proprietary statements are included in the governmental activities portion of the government-wide statements.

Fiduciary Funds - The District is the trustee, or fiduciary, for various student and staff group activities. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets. These assets have been excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

SUMMARY OF NET ASSETS

The School District's net assets were \$35.0 million at June 30, 2006. Of this amount, \$3.9 million was unrestricted. Restricted net assets are reported separately because the School District is limited in their ability to use those net assets for day-to-day operations. The following summarizes the net assets at the fiscal years ended June 30, 2006 and 2005:

<i>GOVERNMENTAL ACTIVITIES</i>	<i>NET ASSETS JUNE 30, 2006 (IN MILLIONS)</i>	<i>NET ASSETS JUNE 30, 2005 (IN MILLIONS)</i>
Current Assets	\$22.8	\$19.5
Capital/Non-current Assets	17.0	17.6
Total Assets	\$39.8	\$37.1
Current Liabilities	3.6	4.7
Non-current Liabilities/Long-Term Debt	1.3	1.2
Total Liabilities	\$4.9	\$5.9
Net Assets		
Invested in Capital Assets	17.0	16.2
Restricted for construction/other purposes	14.0	
Unrestricted	3.9	15.0
TOTAL NET ASSETS	\$34.9	\$31.2

The District is able to report positive balances in net assets for this year as well as last year. Net assets for the year ended June 30, 2006 increased by \$3.7 million over the amount reported for the previous fiscal year. This increase includes \$1.6 million in restated beginning net assets to properly recognize the District's Durant receivable. The Durant Bonds are serviced from funds made available to Michigan School Districts by an annual appropriation by the Michigan State Legislature. If the Legislature fails to appropriate the funding required, the district is under no obligation for payment of the debt service.

RESULTS OF OPERATIONS

For the fiscal years ended June 30, 2006 and 2005, results of operations for the School District as a whole are reported in the Statement of Activities.

<i>GOVERNMENTAL ACTIVITIES</i>	<i>NET ASSET CHANGES F/Y/E JUNE 30, 2006 (IN MILLIONS)</i>	<i>NET ASSET CHANGES F/Y/E JUNE 30, 2005 (IN MILLIONS)</i>
REVENUES:		
Program Revenues	\$13,517,862	\$12,710,945
Local Assessments	22,699,586	23,222,648
Grants & Other Contributions	2,157,118	2,333,579
Other	131,914	214,016
Total Revenues	38,506,480	38,480,738
EXPENDITURES:		
Instructional	9,331,396	14,450,511
Supporting Services	17,973,006	12,778,509
Operation and Maintenance	2,586,296	2,295,256
Community Services	1,361,014	816,988
Interest on Long-term Debt	37,905	0
Depreciation	1,127,972	977,837
Payments to Other Governments	3,952,667	4,439,985
Total Expenditures	36,370,256	35,769,086
CHANGE IN NET ASSETS	\$ 2,136,224	\$ 2,711,652

MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS

The School District's budgets are prepared according to the Uniform Budget Act of the State of Michigan. The most significant budgeted funds are the General Fund, the Special Education Fund, and the Vocational Education Fund. The law requires the local Board of Education to approve the original budget for the upcoming fiscal year prior to July 1, the start of the new fiscal year. As a matter of practice, Lenawee Intermediate School District amended its budgets twice during the fiscal year ended June 30, 2006.

GENERAL FUND

The General Fund actual revenue plus other financing sources (uses) was \$6.4 million. The actual amount is less than the original budget of \$6.6 million and equal to the final amended budget estimates of \$6.4 million. The variances between the original and final amended budget and the June 30, 2006 actual results were negligible.

The actual expenditures of the general fund were \$6.0 million, which is below the original budget estimates of \$6.6 million and below the final amended budget of \$6.4 million. The \$0.2 million variance between the original and final budget was insignificant. The \$0.4 million variance between the final amended budget and the June 30, 2006 actual results was due to lower than anticipated expenses in various programs, including M-ITV and Other Business Services.

The General Fund year end fund balance increased \$0.4 million from the previous year to \$3.1 million.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets - At the end of fiscal year 2006, the School District had \$25,265,597 invested in land and buildings, furniture and equipment, vehicles and construction in progress. Of this amount, \$8,214,687 in depreciation has been taken over the years. Capital assets currently have a year-end net book value of \$17,050,910, including the \$162,629 construction in progress. Total acquisitions for the year were \$1,599,538; the majority of acquisitions were for building improvements, furniture and equipment.

CAPITAL ASSETS***(Net of Depreciation)***

	<i>June 30, 2006</i>	<i>June 30, 2005</i>
Land	\$649,001	\$663,334
Site Improvements	3,151,653	3,313,215
Buildings and Additions	9,096,798	8,683,691
Furniture and Equipment	3,352,703	3,200,570
Vehicles	638,126	754,054
Construction In Progress	162,629	963,743
<i>TOTALS</i>	\$17,050,910	\$17,583,607

DEBT

The School District's total long-term liabilities decreased by \$92,605 from the previous fiscal year. At June 30, 2006, the District had \$1.3 million in long-term liabilities of which \$1.0 million is for 1998 Durant School Improvement Bonds. Bond payments had been suspended for the years ended 2003, 2004 and 2005 and resumed in 2006.

GOVERNMENTAL ACTIVITIES***LONG-TERM LIABILITIES***

	<i>JUNE 30, 2006</i>	<i>JUNE 30, 2005</i>
1998 Durant Bonds	\$1,025,762	\$1,109,850
Compensated Absences	264,930	273,447
<i>TOTALS</i>	\$1,290,692	\$1,383,297

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The economy in the State of Michigan has slowed significantly over the last several years and some difficult choices to resolve funding for the school aid budget have been made. Mid-year pro-rations of State Aid dollars for Michigan Intermediate School Districts have occurred in previous years, so the possibility of reductions was a consideration in the 2006-2007 original budget projection process.

Employee fringe benefit costs continue to spiral upward. Michigan state law requires all employees of K-12 public school districts and intermediate school districts to participate in the Michigan Retirement System plan. The required employer contribution rate to the Michigan Public School Employees Retirement System (MPERS) rose from 14.87% to 16.34% on October 1, 2005. The rate set for the MPERS year beginning October 1, 2006 is 17.74%. Significant increases in employee health insurance premium costs are being partially offset by increased employee co-payment amounts. Choices between different health benefit packages are also being offered to try to reduce the district's overall premium costs. These factors were considered in preparing the Lenawee Intermediate School District's budgets for the 2006-2007 fiscal year.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the finances of the Lenawee Intermediate School District. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Theresa E. Soto, CPA
 Executive Director of Finance/Business Services
 Lenawee Intermediate School District
 4107 N. Adrian Highway
 Adrian, MI 49221
 Fax: (517) 265-7405, Phone (517) 265-1640
 Or Email – tsoto@lisd.us

Basic Financial Statements

District-wide Financial Statements

Lenawee Intermediate School District
Statement of Net Assets
June 30, 2006

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 11,223,594
Investments	7,540,420
Accounts receivable	3,862,558
Inventory	103,397
Prepaid expenses	101,783
Capital assets not being depreciated	811,630
Capital assets being depreciated, net	<u>16,239,280</u>
Total assets	<u>39,882,662</u>
Liabilities	
Accounts payable	1,085,945
Accrued payroll and related liabilities	2,061,865
Unearned revenue	460,265
Long-term debt:	
Due within one year	91,431
Due in more than one year	<u>1,199,261</u>
Total liabilities	<u>4,898,767</u>
Net assets	
Invested in capital assets	17,050,910
Restricted for:	
Construction projects	6,999,137
Other purposes	6,996,780
Unrestricted	<u>3,937,068</u>
Total net assets	<u><u>\$ 34,983,895</u></u>

The accompanying notes are an integral part of these financial statements.

Lenawee Intermediate School District
Statement of Activities
For the Year Ended June 30, 2006

Functions / Programs	Program Revenues			Net (Expense) Revenue
	Expenses	Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Instruction	\$ 9,331,396	\$ 269,151	\$ 941,458	\$ (8,120,787)
Supporting services	17,973,006	1,375,544	9,537,905	(7,059,557)
Operations and maintenance	2,586,296	254,182	35,934	(2,296,180)
Community services	1,361,014	62,025	466,002	(832,987)
Payments to other governments	3,952,667	32,157	505,599	(3,414,911)
Interest on long-term debt	37,905	-	37,905	-
Unallocated depreciation	1,127,972	-	-	(1,127,972)
Total governmental activities	<u>\$ 36,370,256</u>	<u>\$ 1,993,059</u>	<u>\$ 11,524,803</u>	<u>(22,852,394)</u>
General revenues:				
Property taxes				22,699,586
Grants and contributions not restricted to specific programs				2,157,118
Unrestricted investment earnings				<u>131,914</u>
Total general revenues				<u>24,988,618</u>
Change in net assets				2,136,224
Net assets, beginning of year, as restated				<u>32,847,671</u>
Net assets, end of year				<u>\$ 34,983,895</u>

The accompanying notes are an integral part of these financial statements.

Fund Financial Statements

Lenawee Intermediate School District
Balance Sheet
Governmental Funds
June 30, 2006

	General	Special Education	Vocational Education
<u>ASSETS</u>			
Assets			
Cash and cash equivalents	\$ 2,155,401	\$ 2,877,458	\$ 1,469,220
Investments	858,775	1,341,405	2,691,859
Due from other funds	384,573	88,431	6,379
Accounts receivable	935,064	1,556,210	316,736
Inventory	8,001	82,177	4,497
Prepaid items	73,519	3,907	1,414
Total assets	<u>\$ 4,415,333</u>	<u>\$ 5,949,588</u>	<u>\$ 4,490,105</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities			
Accounts payable	\$ 268,631	\$ 682,636	\$ 82,500
Accrued payroll and related liabilities	211,050	1,453,686	397,078
Due to other funds	60,189	473,359	100,658
Accrued compensated absences	-	7,138	323
Deferred revenue	734,946	169,325	76,210
Total liabilities	<u>1,274,816</u>	<u>2,786,144</u>	<u>656,769</u>
Fund balances			
Reserved for:			
Inventory	8,001	82,177	4,497
Prepaid items	73,519	3,907	1,414
Unreserved:			
Designated for subsequent year's expenditures	1,990,357	-	-
Undesignated	1,068,640	3,077,360	3,827,425
Undesignated (deficit), reported in nonmajor:			
Special revenue funds	-	-	-
Capital projects funds	-	-	-
Total fund balances	<u>3,140,517</u>	<u>3,163,444</u>	<u>3,833,336</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u><u>\$ 4,415,333</u></u>	<u><u>\$ 5,949,588</u></u>	<u><u>\$ 4,490,105</u></u>

The accompanying notes are an integral part of these financial statements.

Durant Debt Service	General Services Capital Projects	Other Governmental Funds	Totals
\$ -	\$ 1,836,556	\$ 2,262,451	\$ 10,601,086
-	701,423	1,946,958	7,540,420
-	52,001	253,860	785,244
1,025,762	80	1,852	3,835,704
-	-	8,722	103,397
-	-	882	79,722
<u>\$ 1,025,762</u>	<u>\$ 2,590,060</u>	<u>\$ 4,474,725</u>	<u>\$ 22,945,573</u>
\$ -	\$ 4,358	\$ 30,718	\$ 1,068,843
-	-	-	2,061,814
-	18,401	12,171	664,778
-	-	-	7,461
1,025,762	-	-	2,006,243
<u>1,025,762</u>	<u>22,759</u>	<u>42,889</u>	<u>5,809,139</u>
-	-	8,722	103,397
-	-	882	79,722
-	712,193	-	2,702,550
-	1,855,108	-	9,828,533
-	-	(9,604)	(9,604)
-	-	4,431,836	4,431,836
<u>-</u>	<u>2,567,301</u>	<u>4,431,836</u>	<u>17,136,434</u>
<u>\$ 1,025,762</u>	<u>\$ 2,590,060</u>	<u>\$ 4,474,725</u>	<u>\$ 22,945,573</u>

Lenawee Intermediate School District
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
June 30, 2006

Fund balances - total governmental funds	\$ 17,136,434
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets	25,265,597
Deduct: accumulated depreciation	(8,214,687)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred long-term Durant Settlement receivable	1,373,205
Add: deferred industrial facilities taxes receivable	182,835

Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities in the statement of net assets.

Add: net assets of governmental activities accounted for in internal service funds	531,203
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Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct: bonds payable	(1,025,762)
Deduct: compensated absences	(264,930)

Net assets of governmental activities	<u>\$ 34,983,895</u>
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The accompanying notes are an integral part of these financial statements.

Lenawee Intermediate School District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006

	<u>General</u>	<u>Special Education</u>	<u>Vocational Education</u>
Revenues			
Local sources	\$ 1,431,930	\$ 13,467,290	\$ 9,485,501
Local district sources	488,247	22,027	-
State sources	998,929	6,210,229	670,390
Federal sources	913,109	3,980,456	428,796
	<hr/>	<hr/>	<hr/>
Total revenues	3,832,215	23,680,002	10,584,687
	<hr/>	<hr/>	<hr/>
Expenditures			
Instruction	175,516	5,186,204	3,968,303
Supporting services	4,129,736	11,739,242	1,776,338
Operations and maintenance	254,017	826,591	1,093,963
Community services	996,033	9,519	344,492
Payments to other governments	475,279	3,477,388	-
Debt service:			
Principal	-	-	-
Interest and fiscal charges	-	-	-
	<hr/>	<hr/>	<hr/>
Total expenditures	6,030,581	21,238,944	7,183,096
	<hr/>	<hr/>	<hr/>
Revenue over (under) expenditures	(2,198,366)	2,441,058	3,401,591
	<hr/>	<hr/>	<hr/>
Other financing sources (uses)			
Proceeds from sales of capital assets	-	-	-
Transfers in	2,920,015	182,693	-
Transfers out	(276,179)	(2,234,797)	(2,605,954)
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	2,643,836	(2,052,104)	(2,605,954)
	<hr/>	<hr/>	<hr/>
Net change in fund balances	445,470	388,954	795,637
	<hr/>	<hr/>	<hr/>
Fund balances, beginning of year	2,695,047	2,774,490	3,037,699
	<hr/>	<hr/>	<hr/>
Fund balances, end of year	<u>\$ 3,140,517</u>	<u>\$ 3,163,444</u>	<u>\$ 3,833,336</u>

The accompanying notes are an integral part of these financial statements.

Durant Debt Service	General Services Capital Projects	Other Governmental Funds	Totals
\$ -	\$ 89,421	\$ 181,083	\$ 24,655,225
-	35,934	-	546,208
121,993	-	1,690	8,003,231
-	-	41,303	5,363,664
121,993	125,355	224,076	38,568,328
-	-	-	9,330,023
-	79,598	304,374	18,029,288
-	110,885	795,146	3,080,602
-	10,970	-	1,361,014
-	-	-	3,952,667
84,088	-	-	84,088
37,905	-	-	37,905
121,993	201,453	1,099,520	35,875,587
-	(76,098)	(875,444)	2,692,741
-	1,425	34,095	35,520
-	276,180	1,738,042	5,116,930
-	-	-	(5,116,930)
-	277,605	1,772,137	35,520
-	201,507	896,693	2,728,261
-	2,365,794	3,535,143	14,408,173
\$ -	\$ 2,567,301	\$ 4,431,836	\$ 17,136,434

Lenawee Intermediate School District
Reconciliation of the Statement of Revenues, Expenditures
and Change in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2006

Net change in fund balances - total governmental funds	\$ 2,728,261
--	--------------

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	630,795
Deduct: depreciation expense	(1,095,860)
Deduct: proceeds from the sale of capital assets	(35,520)
Deduct: loss on disposal of capital assets	(32,112)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Deduct: payments received on long-term Durant Settlement receivable	(257,809)
Add: industrial facilities taxes revenue not received	182,835

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities	84,088
--	--------

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add: decrease in the accrual for compensated absences	(5,493)
---	---------

Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.

Deduct: net loss from governmental activities accounted for in internal service funds	(62,961)
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Change in net assets of governmental activities	\$ <u>2,136,224</u>
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The accompanying notes are an integral part of these financial statements.

Lenawee Intermediate School District
Statement of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual
General Fund
For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenues				
Local sources	\$ 1,575,157	\$ 1,561,952	\$ 1,431,930	\$ (130,022)
Local district sources	521,135	510,358	488,247	(22,111)
State sources	1,023,795	999,326	998,929	(397)
Federal sources	881,226	857,713	913,109	55,396
Total revenues	4,001,313	3,929,349	3,832,215	(97,134)
Expenditures				
Instruction	178,515	178,122	175,516	(2,606)
Supporting services	4,710,453	4,553,796	4,129,736	(424,060)
Operations and maintenance	301,632	263,924	254,017	(9,907)
Community services	1,133,910	1,021,587	996,033	(25,554)
Payments to other governments	298,546	405,414	475,279	69,865
Total expenditures	6,623,056	6,422,843	6,030,581	(392,262)
Revenue over (under) expenditures	(2,621,743)	(2,493,494)	(2,198,366)	295,128
Other financing sources (uses)				
Proceeds from sales of capital assets	1,400	-	-	-
Transfers in	2,924,629	2,830,432	2,920,015	89,583
Transfers out	(303,568)	(322,004)	(276,179)	45,825
Total other financing sources	2,622,461	2,508,428	2,643,836	135,408
Net change in fund balances	718	14,934	445,470	430,536
Fund balances, beginning of year	2,695,047	2,695,047	2,695,047	-
Fund balances, end of year	\$ 2,695,765	\$ 2,709,981	\$ 3,140,517	\$ 430,536

The accompanying notes are an integral part of these financial statements.

Lenawee Intermediate School District
Statement of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual
Special Education Fund
For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenues				
Local sources	\$ 12,601,923	\$ 13,118,744	\$ 13,467,290	\$ 348,546
Local district sources	27,000	-	22,027	22,027
State sources	6,478,447	6,148,236	6,210,229	61,993
Federal sources	3,800,679	3,912,975	3,980,456	67,481
Total revenues	22,908,049	23,179,955	23,680,002	500,047
Expenditures				
Instruction	5,405,706	5,135,654	5,186,204	50,550
Supporting services	11,657,798	11,864,136	11,739,242	(124,894)
Operations and maintenance	882,021	850,033	826,591	(23,442)
Community services	11,688	9,783	9,519	(264)
Payments to other governments	3,389,028	3,420,413	3,477,388	56,975
Total expenditures	21,346,241	21,280,019	21,238,944	(41,075)
Revenue over expenditures	1,561,808	1,899,936	2,441,058	541,122
Other financing sources (uses)				
Transfers in	155,378	182,693	182,693	-
Transfers out	(1,953,012)	(2,145,965)	(2,234,797)	(88,832)
Total other financing sources (uses)	(1,797,634)	(1,963,272)	(2,052,104)	(88,832)
Net change in fund balances	(235,826)	(63,336)	388,954	452,290
Fund balances, beginning of year	2,774,490	2,774,490	2,774,490	-
Fund balances, end of year	<u>\$ 2,538,664</u>	<u>\$ 2,711,154</u>	<u>\$ 3,163,444</u>	<u>\$ 452,290</u>

The accompanying notes are an integral part of these financial statements.

Lenawee Intermediate School District
Statement of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual
Vocational Education Fund
For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenues				
Local sources	\$ 9,141,566	\$ 9,266,002	\$ 9,485,501	\$ 219,499
State sources	618,846	648,737	670,390	21,653
Federal sources	412,649	427,570	428,796	1,226
Total revenues	10,173,061	10,342,309	10,584,687	242,378
Expenditures				
Instruction	4,029,625	3,942,233	3,968,303	26,070
Supporting services	1,881,217	1,850,800	1,776,338	(74,462)
Operations and maintenance	1,222,247	1,110,455	1,093,963	(16,492)
Community services	353,872	348,544	344,492	(4,052)
Total expenditures	7,486,961	7,252,032	7,183,096	(68,936)
Revenue over expenditures	2,686,100	3,090,277	3,401,591	311,314
Other financing sources				
Transfers out	(2,612,857)	(2,605,771)	(2,605,954)	(183)
Net change in fund balances	73,243	484,506	795,637	311,131
Fund balances, beginning of year	3,037,699	3,037,699	3,037,699	-
Fund balances, end of year	\$ 3,110,942	\$ 3,522,205	\$ 3,833,336	\$ 311,131

The accompanying notes are an integral part of these financial statements.

Lenawee Intermediate School District
Statement of Net Assets
Proprietary Funds
June 30, 2006

	<u>Governmental Activities - Internal Service Funds</u>
Assets	
Cash and cash equivalents	\$ 622,508
Due from other funds	20,577
Accounts receivable	26,854
Prepaid expenses	<u>22,061</u>
Total assets	<u>692,000</u>
Liabilities	
Accounts payable	9,641
Accrued payroll and related liabilities	51
Due to other funds	141,043
Unearned revenue	<u>10,062</u>
Total liabilities	<u>160,797</u>
Net assets	
Unrestricted	<u><u>\$ 531,203</u></u>

The accompanying notes are an integral part of these financial statements.

Lenawee Intermediate School District
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2006

	<u>Governmental Activities - Internal Service Funds</u>
Operating revenues	
Charges for services	\$ 915,232
Operating expenses	
Supporting services	937,279
Operations and maintenance	31,941
Community services	22,099
	<hr/>
Total operating expenses	991,319
	<hr/>
Operating loss	(76,087)
Nonoperating revenue	
Interest revenue	13,126
	<hr/>
Net income (loss)	(62,961)
Net assets, beginning of year	594,164
	<hr/>
Net assets, end of year	<u><u>\$ 531,203</u></u>

The accompanying notes are an integral part of these financial statements.

Lenawee Intermediate School District
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2006

	Governmental Activities - Internal Service Funds
Cash flows from operating activities	
Cash received from customers	\$ 1,010,989
Cash received from interfund services	228,326
Cash payments for goods and services	(703,241)
Cash payments to employees	(448,290)
Net cash provided by (used for) operating activities	<u>87,784</u>
Cash flows from investing activities	
Interest received	<u>13,126</u>
Net increase (decrease) in cash and cash equivalents	100,910
Cash and cash equivalents, beginning of year	<u>521,598</u>
Cash and cash equivalents, end of year	<u><u>\$ 622,508</u></u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities	
Operating loss	\$ (76,087)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities	
Change in:	
Due from other funds	(20,577)
Accounts receivable	212,940
Prepaid expenses	6,644
Accounts payable	(166,036)
Accrued payroll and related liabilities	(820)
Due to other funds	141,043
Unearned revenue	(9,323)
Net cash provided by (used for) operating activities	<u><u>\$ 87,784</u></u>

The accompanying notes are an integral part of these financial statements.

Lenawee Intermediate School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2006

	Trust and Agency
Assets	
Cash and cash equivalents	\$ 46,508
Accounts receivable	<u>628</u>
Total assets	<u><u>\$ 47,136</u></u>
Liabilities	
Accounts payable	\$ 18,738
Due to student groups	<u>28,398</u>
Total liabilities	<u><u>\$ 47,136</u></u>

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

LENAWEE INTERMEDIATE SCHOOL DISTRICT

Notes To Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

Lenawee Intermediate School District (the “District”) has followed the guidelines of the Governmental Accounting Standards Board’s Statement No. 14 and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District. The District has no component units.

B. District-wide and fund financial statements

The District-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the District-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The District-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

LENAWEE INTERMEDIATE SCHOOL DISTRICT

Notes To Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes received and grant and interest revenue earned within the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Special Education Fund* accounts for special education initiatives carried out by the District, which are primarily financed through restricted state aid and property taxes.

The *Vocational Education Fund* accounts for vocational education initiatives carried out by the District, which are primarily financed through restricted state aid and property taxes.

The *Durant Debt Service Fund* accounts for the retirement of the Durant Bonds, which are financed through restricted state aid payments.

The *General Services Capital Projects Fund* accounts for financial resources to be used for the acquisition, construction or improvement of general capital facilities not being financed by proprietary funds.

Additionally, the District reports the following fund types:

The *food service special revenue fund* accounts for the activities of the food service operation at the various cafeteria locations. The District charges users primarily for the direct costs of this program, which is subsidized by state and federal grants.

Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities, major remodeling and improvements.

The *agency fund* accounts for assets held for other groups and organizations and is custodial in nature.

LENAWEE INTERMEDIATE SCHOOL DISTRICT

Notes To Financial Statements

Internal service funds are used to account for the financing of services provided by one department or agency to other departments or agencies of the District on a cost reimbursement basis.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the District-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, liabilities and equity

1. *Deposits and investments*

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are reported at fair value based on quoted market prices.

2. *Receivables and payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds" (i.e., the current portion of interfund loans).

3. *Inventories and prepaids*

Inventory is valued at the lower of cost (first-in, first-out) or market. Inventory in the general and special revenue funds consists of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed. Reported inventories in the fund financial statements are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. *Capital assets*

Capital assets, which include property and equipment, are reported in the governmental activities column in the District-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

LENAWEE INTERMEDIATE SCHOOL DISTRICT

Notes To Financial Statements

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20-50
Furniture and equipment	5-15
Transportation equipment	8

5. *Compensated absences*

Sick Pay – The District’s sick pay and personal leave policies allow for accumulation of up to a certain number of days depending on the employee group involved. Upon termination of employment, all accumulated sick and personal days are forfeited. It is the District’s policy to recognize the cost of such leave at the time payments are made.

The liability for compensated absences reported in the District-wide financial statements consists of unpaid, accumulated vacation days. The liability has been calculated for employees who currently are eligible to receive termination payments. The amount reported is salary related and includes no fringe benefits.

6. *Long-term obligations*

In the District-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities on the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received in debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual proceeds received, are reported as debt service expenditures.

LENAWEE INTERMEDIATE SCHOOL DISTRICT

Notes To Financial Statements

7. *Fund balance*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

The general and special revenue funds are under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. All annual appropriations lapse at fiscal year end. The budgets for the General and special revenue funds are adopted on a functional basis. Any budgetary modifications may only be made by resolution of the Board of Education.

B. Excess of expenditures over appropriations

Budget to actual comparisons for the General Fund and each major Special Revenue Fund are presented in the fund financial statements at the legal level of budgetary control.

	<u>Final Budget</u>	<u>Actual</u>	<u>Over Budget</u>
General Fund:			
Payments to other governments	\$ 405,414	\$ 475,279	\$ 69,865
Special Education:			
Instruction	5,135,654	5,186,204	50,550
Payments to other governments	3,420,413	3,477,388	56,975
Transfers out	2,145,965	2,234,797	88,832
Vocational Education:			
Instruction	3,942,233	3,968,303	26,070
Transfers out	2,605,771	2,605,954	183

LENAWEE INTERMEDIATE SCHOOL DISTRICT

Notes To Financial Statements

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Assets and Liabilities follows:

Statement of Net Assets

Cash and cash equivalents	\$ 11,223,594
Investments	7,540,420

Statement of Fiduciary Assets and Liabilities

Cash and cash equivalents	<u>46,508</u>
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\$ 18,810,522

Cash on hand	\$ 1,750
Bank deposits (checking accounts, savings accounts and CDs)	10,163,715
Investments:	
Governmental liquid asset funds	7,744,517
Government agencies	<u>900,540</u>

\$ 18,810,522

Statutory Authority

State statutes authorize the District to deposit and invest in:

- a. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- b. Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- c. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- d. Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.

LENAWEE INTERMEDIATE SCHOOL DISTRICT

Notes To Financial Statements

- e. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- f. Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

The District's investment policy allows for all of these types of investments.

The District chooses to disclose its investments by specifically identifying each. At June 30, 2006, the District had the following investments.

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Money market and cash management accounts	n/a	\$ 6,437,534	n/a
Comerica J Fund	n/a	1,270,175	n/a
Michigan Liquid Asset Fund	n/a	36,808	S&P – AAAm
U.S. Agencies:			
Federal Home Loan Mortgage	1-5 years	54,708	S&P – AAA
Federal Home Loan Mortgage	5-10 years	81,180	S&P – AAA
Federal Home Loan Mortgage	> 10 years	<u>764,652</u>	S&P – AAA
		<u>\$ 8,645,057</u>	

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Maturity dates are identified above for investments held at year end.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year end.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$11,337,123 of the District's bank balance of \$11,537,123 was exposed to custodial credit risk because it was uninsured and uncollateralized.

LENAWEE INTERMEDIATE SCHOOL DISTRICT

Notes To Financial Statements

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the District does not have a policy for investment custodial credit risk. None of the above investments are exposed to custodial credit risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

B. Receivables

Receivables as of year end for the District's individual major funds and nonmajor funds in the aggregate, are as follows:

	General Fund	Special Education	Vocational Education	Durant Debt Service	Capital Projects General Services	Nonmajor Funds	Internal Service Funds	Total	Amount Not Expected to be Collected Within One Year
Accounts receivable	\$ 928,625	\$ 1,453,130	\$ 243,420	\$ 1,025,762	\$ 80	\$ 1,852	\$ 26,854	\$ 3,679,723	\$ 460,265
Taxes receivable	6,439	103,080	73,316		-	-	-	182,835	-
Total	\$ 935,064	\$ 1,556,210	\$ 316,736	\$ 1,025,762	\$ 80	\$ 1,852	\$ 26,854	\$ 3,862,558	\$ 460,265

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
General Fund	\$ 353,882	\$ 381,064
Special Revenue Funds:		
Special Education	103,080	66,245
Vocation Education	73,316	2,894
Durant Debt Service Fund	1,025,762	-
Internal Service Fund	-	10,062
	<u>\$ 1,556,040</u>	<u>\$ 460,265</u>

LENAWEE INTERMEDIATE SCHOOL DISTRICT

Notes To Financial Statements

C. Capital assets

Capital assets activity for the year ended June 30, 2006 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 663,334	\$ -	\$ (14,333)	\$ 649,001
Construction in progress	968,743	162,629	(968,743)	162,629
Total capital assets not being depreciated	1,632,077	162,629	(983,076)	811,630
Capital assets being depreciated:				
Site improvements	3,465,754	12,183	-	3,477,937
Building and improvements	13,048,200	783,817	-	13,832,017
Furniture and equipment	4,963,951	583,790	(65,000)	5,482,741
Vehicles	1,627,153	57,119	(23,000)	1,661,272
Total capital assets being depreciated	23,105,058	1,436,909	(88,000)	24,453,967
Less accumulated depreciation for:				
Site improvements	(152,539)	(173,745)	-	(326,284)
Building and improvements	(4,364,509)	(370,710)	-	(4,735,219)
Furniture and equipment	(1,763,381)	(386,157)	19,500	(2,130,038)
Vehicles	(873,099)	(165,248)	15,201	(1,023,146)
Total accumulated depreciation	(7,153,528)	(1,095,860)	34,701	(8,214,687)
Total capital assets being depreciated, net	15,951,530	341,049	(53,299)	16,239,280
Governmental activities capital assets, net	\$ 17,583,607	\$ 503,678	\$ (1,036,375)	\$ 17,050,910

Depreciation expense of \$1,095,860 was reported on the statement of activities as "unallocated depreciation" (i.e., not allocated to functions/programs). An additional \$32,112 was included with this amount representing a loss on the sale of capital assets.

LENAWEE INTERMEDIATE SCHOOL DISTRICT

Notes To Financial Statements

D. Interfund receivables, payables and transfers

At June 30, 2006, interfund receivables and payables consisted of the following:

	<u>Due to</u>	<u>Due from</u>
General Fund	\$ 60,189	\$ 384,573
Special Education Fund	473,359	88,431
Vocational Education Fund	100,658	6,379
Capital Projects Fund General Services	18,401	52,001
Nonmajor governmental funds	12,171	253,860
Internal Service Funds	<u>141,043</u>	<u>20,577</u>
	<u>\$ 805,821</u>	<u>\$ 805,821</u>

For the year ended June 30, 2006, interfund transfers consisted of the following:

	<u>Transfers out</u>	<u>Transfers in</u>
General Fund	\$ 276,179	\$ 2,920,015
Special Education Fund	2,234,797	182,693
Vocational Education Fund	2,605,954	-
Capital Projects Fund General Services	-	276,180
Nonmajor governmental funds	<u>-</u>	<u>1,738,042</u>
	<u>\$ 5,116,930</u>	<u>\$ 5,116,930</u>

The District reports interfund balances between many of its funds. The sum of all balances presented in the tables above agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for the governmental funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

For the year ended June 30, 2006, the District transferred funds to provide funds for capital projects and to return surplus special education and vocational education funds to the General Fund.

LENAWEE INTERMEDIATE SCHOOL DISTRICT

Notes To Financial Statements

E. Long-Term debt

Long-term debt and other obligations of the District at June 30, 2006, are summarized as follows:

	Long-Term Debt Outstanding at July 1, 2005	Additions	Retirements	Long-Term Debt Outstanding at June 30, 2006	Amount Due Within One Year
1998 Durant School Improvement Bonds, due in annual installments of \$76,599 to \$178,069 through the year 2013; interest at 4.8% *	\$ 1,109,850	\$ -	\$ 84,088	\$ 1,025,762	\$ 88,071
Compensated absences	273,447	10,769	19,286	264,930	3,360
Total Long-Term Debt	<u>\$ 1,383,297</u>	<u>\$ 10,769</u>	<u>\$ 103,374</u>	<u>\$ 1,290,692</u>	<u>\$ 91,431</u>

* The Durant School Improvement Bonds are serviced from funds made available to Michigan School Districts by an annual appropriation by the Michigan State Legislature. If the Legislature does not appropriate the funding required, the District is not liable to pay the debt service. Bond payments were suspended for the years ended 2003, 2004 and 2005 and resumed in 2006.

Compensated absences are generally liquidated by the general fund.

Future principal and interest payment requirements on outstanding debt are as follows:

	Principal	Interest	Total
2007	\$ 88,071	\$ 33,902	\$ 121,973
2008	92,287	29,708	121,995
2009	96,682	25,314	121,996
2010	101,280	20,711	121,991
2011	419,851	155,833	575,684
2012-2013	227,591	16,380	243,971
Total	<u>\$ 1,025,762</u>	<u>\$ 281,848</u>	<u>\$ 1,307,610</u>

LENAWEE INTERMEDIATE SCHOOL DISTRICT

Notes To Financial Statements

IV. OTHER INFORMATION

A. Risk management

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The District limits its exposure to such claims by participating in the MASB/SET-SEG (risk pool).

The shared-risk pool program in which the District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts. Premiums for the year ended June 30, 2006 were \$148,924.

B. Property taxes

Property taxes are assessed as of December 31 and attach as an enforceable lien on property as of July 1 of the following year. Taxes are levied on whose boundaries include property within the District and are due on September 15.

C. Defined benefit pension plan

Plan Description

The District contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits to plan members and beneficiaries. Benefit provisions are established and may be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling 1-800-381-5111.

Funding Policy

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

LENAWEE INTERMEDIATE SCHOOL DISTRICT

Notes To Financial Statements

The current rate is 16.34% of annual covered payroll. The contribution requirements of plan members and the District are established by Michigan State statute and may be amended only by action of the State Legislature. The District's contributions to MPSERS for the years ended June 30, 2006, 2005, and 2004, were \$2,811,365, \$2,841,299, and \$2,448,328, respectively, equal to the required contributions for each year.

Other Post Employment Benefits

Retirees have the option of health coverage which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

D. Commitments and Contingencies

Amounts received or receivable from grantor agencies are subject to audit and adjustment by those grantor agencies or intermediaries. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors or intermediaries cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

The District has entered into a lease agreement with Tecumseh Public Schools for 1,600 square feet of classroom and kitchen space. Total cost of the 99-year lease is \$1. Upon the Bond Cremation the lease would convert ownership of this space to the School District.

The District is obligated for construction contracts relating to building projects in the amount of \$712,193 at June 30, 2006. These commitments are not susceptible to accrual. Accordingly, no liabilities have been recorded in the financial statements.

LENAWEE INTERMEDIATE SCHOOL DISTRICT

Notes To Financial Statements

E. Restatements

The District's beginning net assets of governmental activities as of July 1, 2005, were restated as follows:

Beginning net assets, as previously reported	\$ 31,216,657
Increased to properly recognize Durant receivable	<u>1,631,014</u>
Beginning assets, as restated	<u>\$ 32,847,671</u>

* * * * *

Combining and Individual Fund Financial Statements

Lenawee Intermediate School District
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006

	<u>Special Revenue Food Service</u>	<u>Capital Construction</u>
<u>ASSETS</u>		
Assets		
Cash and cash equivalents	\$ 1,723	\$ 799,568
Investments	-	-
Due from other funds	100	-
Accounts receivable	1,693	-
Inventory	8,722	-
Prepaid items	882	-
	<hr/>	<hr/>
Total assets	<u>\$ 13,120</u>	<u>\$ 799,568</u>
 <u>LIABILITIES AND FUND BALANCES</u>		
Liabilities		
Accounts payable	\$ 2,731	\$ -
Due to other funds	10,389	-
Deferred revenue	-	-
	<hr/>	<hr/>
Total liabilities	<u>13,120</u>	<u>-</u>
 Fund balances		
Reserved for:		
Inventory	8,722	-
Prepaid items	882	-
Unreserved, undesignated (deficit)	(9,604)	799,568
	<hr/>	<hr/>
Total fund balances	<u>-</u>	<u>799,568</u>
 <u>TOTAL LIABILITIES AND FUND BALANCES</u>	 <u>\$ 13,120</u>	 <u>\$ 799,568</u>

Projects			
Special	Vocational		
Education	Education	Totals	
\$ 384,677	\$ 1,076,483	\$ 2,262,451	
1,417,094	529,864	1,946,958	
252,407	1,353	253,860	
80	79	1,852	
-	-	8,722	
-	-	882	
<u>\$ 2,054,258</u>	<u>\$ 1,607,779</u>	<u>\$ 4,474,725</u>	

\$ 10,795	\$ 17,192	\$ 30,718	
891	891	12,171	
-	-	-	
<u>11,686</u>	<u>18,083</u>	<u>42,889</u>	

-	-	8,722	
-	-	882	
<u>2,042,572</u>	<u>1,589,696</u>	<u>4,422,232</u>	
<u>2,042,572</u>	<u>1,589,696</u>	<u>4,431,836</u>	
<u>\$ 2,054,258</u>	<u>\$ 1,607,779</u>	<u>\$ 4,474,725</u>	

Lenawee Intermediate School District
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2006

	<u>Special Revenue Food Service</u>	<u>Capital Construction</u>
Revenues		
Local sources	\$ 16,322	\$ 23,746
State sources	1,690	-
Federal sources	41,303	-
	<u>59,315</u>	<u>23,746</u>
Total revenues		
Expenditures		
Supporting services	244,063	-
Operations and maintenance	-	-
Debt service:		
Principal	-	-
Interest and fiscal charges	-	-
	<u>244,063</u>	<u>-</u>
Total expenditures		
Revenue over (under) expenditures	<u>(184,748)</u>	<u>23,746</u>
Other financing sources (uses)		
Proceeds from sales of capital assets	-	-
Transfers in	184,748	-
	<u>184,748</u>	<u>-</u>
Total other financing sources		
Net change in fund balances	-	23,746
Fund balances, beginning of year	<u>-</u>	<u>775,822</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 799,568</u>

Projects			
Special Education	Vocational Education		Totals
\$ 98,848	\$ 42,167	\$	181,083
-	-		1,690
-	-		41,303
98,848	42,167		224,076
46,886	13,425		304,374
270,126	525,020		795,146
-	-		-
-	-		-
317,012	538,445		1,099,520
(218,164)	(496,278)		(875,444)
-	34,095		34,095
203,294	1,350,000		1,738,042
203,294	1,384,095		1,772,137
(14,870)	887,817		896,693
2,057,442	701,879		3,535,143
\$ 2,042,572	\$ 1,589,696	\$	4,431,836

Lenawee Intermediate School District
Combining Statement of Net Assets
Internal Service Funds
June 30, 2006

	Technology Fund	Cooperative Fund	Totals
Assets			
Cash and cash equivalents	\$ 353,138	\$ 269,370	\$ 622,508
Due from other funds	12,732	7,845	20,577
Accounts receivable	625	26,229	26,854
Prepaid expenses	6,972	15,089	22,061
Total assets	373,467	318,533	692,000
Liabilities			
Accounts payable	2,513	7,128	9,641
Accrued payroll and related liabilities	-	51	51
Due to other funds	35,400	105,643	141,043
Unearned revenue	9,433	629	10,062
Total liabilities	47,346	113,451	160,797
Net assets			
Unrestricted	\$ 326,121	\$ 205,082	\$ 531,203

Lenawee Intermediate School District
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Internal Service Funds
For the Year Ended June 30, 2006

	Technology Fund	Cooperative Fund	Totals
Operating revenues			
Charges for services	\$ 430,370	\$ 484,862	\$ 915,232
Operating expenses			
Supporting services	425,906	511,373	937,279
Operations and maintenance	9,862	22,079	31,941
Community services	-	22,099	22,099
Total operating expenses	435,768	555,551	991,319
Operating loss	(5,398)	(70,689)	(76,087)
Nonoperating revenue			
Interest revenue	5,398	7,728	13,126
Net income (loss)	-	(62,961)	(62,961)
Net assets, beginning of year	326,121	268,043	594,164
Net assets, end of year	<u>\$ 326,121</u>	<u>\$ 205,082</u>	<u>\$ 531,203</u>

Lenawee Intermediate School District
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2006

	Technology Fund	Cooperative Fund	Totals
Cash flows from operating activities			
Cash received from customers	\$ 490,690	\$ 520,299	\$ 1,010,989
Cash received from interfund services	130,528	97,798	228,326
Cash payments for goods and services	(357,852)	(345,389)	(703,241)
Cash payments to employees	(133,353)	(314,937)	(448,290)
Net cash provided by (used for) operating activities	130,013	(42,229)	87,784
Cash flows from investing activities			
Interest received	5,398	7,728	13,126
Net increase (decrease) in cash and cash equivalents	135,411	(34,501)	100,910
Cash and cash equivalents, beginning of year	217,727	303,871	521,598
Cash and cash equivalents, end of year	<u>\$ 353,138</u>	<u>\$ 269,370</u>	<u>\$ 622,508</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities			
Operating loss	\$ (5,398)	\$ (70,689)	\$ (76,087)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities			
Change in:			
Due from other funds	(12,732)	(7,845)	(20,577)
Accounts receivable	168,582	44,358	212,940
Prepaid expenses	21,733	(15,089)	6,644
Accounts payable	(77,170)	(88,866)	(166,036)
Accrued payroll and related liabilities	-	(820)	(820)
Due to other funds	35,400	105,643	141,043
Unearned revenue	(402)	(8,921)	(9,323)
Net cash provided by (used for) operating activities	<u>\$ 130,013</u>	<u>\$ (42,229)</u>	<u>\$ 87,784</u>

Single Audit

Lenawee Intermediate School District
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2006

Federal Grantor/ Pass-Through Grantor/ Program Title	CFDA Number	Pass- Through Grantor's Number	Approved Award/ Grant Amount	Accrued Revenue, Beginning of Year	Adjustments	Current Year Receipts	Current Year Expenditures	Accrued (Deferred) Revenue, End of Year
U.S. DEPARTMENT OF AGRICULTURE								
Direct Program -								
Food Distribution:								
Entitlement commodities	10.550		\$ 3,497	\$ -	\$ -	\$ 3,497	\$ 3,497	\$ -
Bonus commodities	10.550		1,203	-	-	1,203	1,203	-
				-	-	4,700	4,700	-
Passed-through Michigan Department of Education:								
2004-05 School Breakfast	10.553	051970		763	-	2,084	1,321	-
2005-06 School Breakfast	10.553	061970		-	-	7,108	7,340	232
				763	-	9,192	8,661	232
National School Lunch:								
2004-05 Section 4	10.555	051950		707	-	1,999	1,292	-
2005-06 Section 4	10.555	061950		-	-	2,595	2,775	180
2004-05 Section 11	10.555	051960		2,592	-	7,953	5,361	-
2005-06 Section 11	10.555	061960		-	-	17,781	18,514	733
				3,299	-	30,328	27,942	913
Total U.S. Department of Agriculture				4,062	-	44,220	41,303	1,145
U.S. DEPARTMENT OF EDUCATION								
Direct program:								
Ag Learning	84.215		91,457	4,702	-	4,702	-	-
Passed-through Michigan Department of Education:								
2004-05 Title I	84.010	051700-0405	208,499	-	-	47,587	47,587	-
2005-06 Title I	84.010	051700-0506	9,806	-	-	9,806	9,806	-
2005-06 Title I	84.010	061700-0506	202,473	-	-	128,518	128,531	13
				-	-	185,911	185,924	13
2004-06 Preschool Incentive	84.173	060460-0506	107,307	-	-	31,435	49,242	17,807
2005-07 Preschool Incentive	84.173	050460-0405	110,036	1,171	-	63,536	62,365	-
				1,171	-	94,971	111,607	17,807
2004-06 Infant and Toddler	84.181	051340-190	112,549	12,298	-	34,927	22,629	-
2005-07 Infant and Toddler	84.181	061340-190	112,115	-	-	58,414	103,883	45,469
				12,298	-	93,341	126,512	45,469
2004-05 Title V	84.298	050250-0405	3,889	-	-	3,889	3,889	-
2005-2006 Improving Teacher Quality	84.367	060520-0506		-	-	1,238	1,238	-
2005-06 Title I, Part D	84.013	061700-0506	59,932	-	-	59,932	59,932	-
Passed through Hillsdale Intermediate School District:								
2004-05 Perkins Allocation	84.048A		-	11,910	-	11,910	-	-
2005-06 Perkins Allocation	84.048A		189,199	-	-	153,467	189,199	35,732
				11,910	-	165,377	189,199	35,732
2005-06 Tech Prep	84.243A		37,609	-	-	24,554	37,609	13,055
Passed through Communities in Schools of Lenawee County:								
2002-06 CHILD (CIS)	84.310A		2,174,071	-	-	284,166	399,108	114,942
2002-06 CHILD (CIS)	84.310A		2,174,071	267,036	-	373,527	106,491	-
				267,036	-	657,693	505,599	114,942

continued...

Lenawee Intermediate School District
Schedule of Expenditures of Federal Awards (Concluded)
For the Year Ended June 30, 2006

Federal Grantor/ Pass-Through Grantor/ Program Title	CFDA Number	Pass- Through Grantor's Number	Approved Award/ Grant Amount	Accrued Revenue, Beginning of Year	Adjustments	Current Year Receipts	Current Year Expenditures	Accrued (Deferred) Revenue, End of Year
U.S. DEPARTMENT OF EDUCATION (Concluded)								
Passed-through Michigan Department of Education:								
2004-06 IDEA Flowthrough	84.027	060450-0506	3,573,874	\$ -	\$ -	\$3,000,000	\$3,164,266	\$ 164,266
2005-07 IDEA Flowthrough	84.027	050450-0405	3,479,318	30,738	-	299,318	268,580	-
2004-05 State Initiated	84.027	050480-ESOD	15,349	5,349	-	5,349	-	-
2005-06 State Initiated	84.027	060450-ESOD	50,000	-	-	50,000	50,000	-
2005-06 State Initiated	84.027	060490-TS	90,000	-	-	88,500	90,000	1,500
				36,087	-	3,443,167	3,572,846	165,766
Total U.S. Department of Education				333,204	-	4,734,775	4,794,355	392,784
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES								
Direct program:								
2005-08 Nursing Workforce	93.178		692,385	-	-	142,313	201,988	59,675
Passed through Michigan Family Independence Agency:								
2004-2005 Strong Families	93.556		42,035	4,922	-	8,685	3,763	-
2005-2006 Strong Families	93.556		50,000	-	-	34,865	39,615	4,750
				4,922	-	43,550	43,378	4,750
Passed through State of Michigan Department of Community Health:								
Medicaid	93.778		109,559	-	-	74,650	109,559	34,909
Passed through ACYF/Child Care Bureau:								
2003-2005 CHILD	93.577		532,042	4,780	-	59,932	55,152	-
2005-2007 CHILD	93.577		715,959	-	-	41,890	92,434	50,544
				4,780	-	101,822	147,586	50,544
Passed through Mid-South Substance Abuse Commission:								
2004-05 Substance Abuse Prevention & Treatment	93.959		144,008	(2,614)	7,134	30,015	25,495	-
Total U.S. Department of Health and Human Services				7,088	7,134	392,350	528,006	149,878
Total Expenditures of Federal Awards				\$ 344,354	\$ 7,134	\$5,171,345	\$5,363,664	\$ 543,807

- Expenditures in this schedule are in agreement with amounts reported in the financial statements and the financial reports submitted to the Michigan Department of Education.
- The amounts reported on the R7120 (Grants Section Auditor's Report) reconcile with this schedule.
- An adjustment in the amount of \$7,134 was made to the schedule to properly record federal expenditures in prior years.

LENAWEE INTERMEDIATE SCHOOL DISTRICT

Notes to Schedule of Expenditures of Federal Awards

1. GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of the Lenawee Intermediate School District (the "District"). Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the Schedule.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The amounts presented in this schedule agree or reconcile to the amounts presented in, or used in the preparation of, the financial statements, and the financial reports filed with the Michigan Department of Education.

The District's reporting entity is defined in Note I of the District's financial statements. The District administers certain federal awards programs through subrecipients. Those subrecipients are not considered part of the District's reporting entity. Of the federal expenditures presented in the schedule, the District provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
IDEA Flowthrough	84.027	\$ 39,028
Parental Information Resource Centers	84.310	<u>286,866</u>
Total		<u>\$ 325,894</u>

2. BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting which is described in Note I of the District's financial statements.

* * * * *



REHMANN ROBSON

Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

September 16, 2006

Board of Education
Lenawee Intermediate School District
Adrian, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Lenawee Intermediate School District*, as of and for the year ended June 30, 2006, and have issued our report thereon dated September 16, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lenawee Intermediate School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lenawee Intermediate School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*

However, we noted other matters involving the internal control over financial reporting that we have reported to management of the *Lenawee Intermediate School District* in a separate letter dated September 16, 2006.

This report is intended solely for the information and use of the Board of Education, management, others in the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO MAJOR PROGRAMS AND
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

September 16, 2006

Board of Education
Lenawee Intermediate School District
Adrian, Michigan

Compliance

We have audited the compliance of the ***Lenawee Intermediate School District*** with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Lenawee Intermediate School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Lenawee Intermediate School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting, compliance, and/or operating efficiency that we have reported to the management of the Lenawee Intermediate School District in a separate letter dated September 16, 2006.

This report is intended solely for the information and use of the Board of Education, management, others in the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

LENAWEE INTERMEDIATE SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

_____ yes X no

Reportable condition(s) identified
not considered to be material weaknesses?

_____ yes X none reported

Noncompliance material to financial statements
noted?

_____ yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified?

_____ yes X no

Reportable condition(s) identified
not considered to be material weaknesses?

_____ yes X none reported

Type of auditors' report issued on compliance
for major programs:

Unqualified

Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section 510(a)?

_____ yes X no

LENAWEE INTERMEDIATE SCHOOL DISTRICT

Schedule of Findings and Questioned Costs (Concluded)

For the Year Ended June 30, 2006

SECTION I - SUMMARY OF AUDITORS' RESULTS (Concluded)

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

84.027, 84.173

Special Education Cluster

Dollar threshold used to distinguish
between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

X yes no

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III – FEDERAL AWARD FINDING AND QUESTIONED COSTS

No matters were reported.

SECTION IV – PRIOR YEAR FINDINGS

No matters were reported.

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



September 16, 2006

To the Board of Education of the
Lenawee Intermediate School District
Adrian, Michigan

We have audited the financial statements of Lenawee Intermediate School District for the year ended June 30, 2006 and have issued our report thereon dated September 16, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter dated June 15, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Lenawee Intermediate School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Lenawee Intermediate School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Lenawee Intermediate School District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Lenawee Intermediate School District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Lenawee Intermediate School District's compliance with those requirements.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by Lenawee Intermediate School District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Lenawee Intermediate School District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable fixed assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Lenawee Intermediate School District's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by Lenawee Intermediate School District, either individually or in the aggregate, indicate matters that could have a significant effect on Lenawee Intermediate School District's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Lenawee Intermediate School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum are intended for the use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.

Lenawee Intermediate School District

Comments and Recommendations

For the Year Ended June 30, 2006

During our audit we became aware of certain issues regarding internal control and financial reporting. This memorandum summarizes our comments and suggestions regarding these matters. This memorandum does not affect our report dated September 16, 2006 on the financial statements of Lenawee Intermediate School District.

Journal Entries

As a part of our audit, we examined several journal entries in compliance with Statements of Auditing Standards (SAS) 99. We noted that journal entries prepared by the Director of Business Services are not initialed or approved by someone other than the preparer as a check for journal entry appropriateness and accuracy. Although the District's journal entries are few in number and there was no evidence of management override, this is considered a deficiency in internal control. In order to enhance internal controls in this area, we recommend that all journal entries be reviewed and initialed by an appropriate individual to ensure effective internal controls in this area.

Bank Reconciliations

During our examination of cash and investments, and our discussions with management, it was noted that bank accounts were reconciled by the same individual who has access to the accounting records. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it. It is recommended that an individual without access to the accounting records reconciles the bank statements each month and then the reconciliations are reviewed and approved by an appropriate individual (evidenced by the reviewers initials).

We are pleased to note that the District has already corrected this issue for the 2007 fiscal year.

Payroll Processes

During the course of our audit, we noted that payroll registers are not reviewed and approved by an individual other than the person responsible for preparing the payroll checks. The independent review and approval of payroll registers is an important internal control, especially given that the District's largest expenditures are payroll and related benefits. In order to enhance internal controls in this area, we recommend that an appropriate individual review and approve the payroll register prior to the payroll checks being run.

Lenawee Intermediate School District

Comments and Recommendations

For the Year Ended June 30, 2006

Property Tax Receipts

During our audit procedures on property taxes, we noted that the amounts recorded as Industrial Facilities Tax (IFT) revenue in the general ledger for the General Fund, Special Education Fund and Vocational Education Fund did not agree with the amount reported by the County on the property tax settlement. After reviewing receipt summaries and additional information received from the County, it was discovered that the difference was the result of local units not submitting proper payment to the District for IFTs.

We recommend that the District perform a reconciliation of the amounts receipted into the general ledger to the amounts reported by the County on the property tax settlement when received and to amounts expected to be collected. This will insure that amounts are properly recorded in the applicable funds and that the District receives the full amount of revenue it is entitled.

Accounting for Agency Fund Activity

Generally accepted accounting principles require that the District maintain a financial reporting system in order to properly report all activities of the District. However, the District has several “activity” accounts that are not recorded in the District’s accounting system. While these activities are under the central control of the Finance Department, we recommend that the District account for these activities on the accounting system and add the necessary general ledger accounts.

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